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REVISED BASIS OF REPORTING WHOLESALE PRICES OF BUTTER

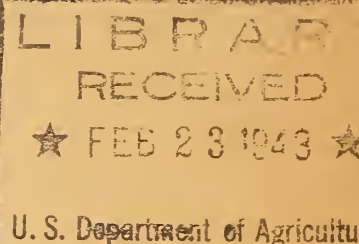
A change in the basis of reporting wholesale prices of butter was made by the Food Distribution Administration (formerly Agricultural Marketing Administration) on December 30, when base quotations for butter were established by OPA Maximum Price Regulation No. 289. This change was necessary because OPA price ceiling orders, the WPB "freeze" order, conservation orders, and the continuation of the Government-buying program for lend-lease, military, and other uses, had so restricted open wholesale trading in terminal markets that the volume upon which to base prices to reflect that type of trading was no longer adequate.

The purpose of this statement is to explain further the reasons for the change, and to assist in the interpretation of the new type of wholesale price information now being made available.

Types of Market Prices: The following are types of prices which apply in the larger terminal markets.

1. F.o.b. Prices: These are receivers' buying prices for products bought on a delivered basis.
2. Wholesale Prices: These are selling prices in the market proper of quantities which according to local custom constitute wholesale business. Wholesale business may be classified under at least two separate categories.
 - a. Open Market Sales: This type of business includes goods which upon arrival have no regular outlet, and are sold on the open market at the highest price obtainable from competitive buyers.
 - b. Sales of Special or Premium Marks: This type of business includes goods which upon arrival are either earmarked for sale in regular established outlets, or which because of the known quality of special marks, move readily in numerous competitive outlets at generally recognized mark-ups over some published quotation.
3. Jobbing Prices: This type of business includes smaller sized lots sold to retail distributors or other small lot buyers, and usually include additional service, such as packaging, extension of credit, and delivery service.
4. Retail Prices: These are prices paid by the ultimate consumer who buys at a retail store. They cover a wide range, depending upon quality, brands, type of store, location of store, etc.

Former Basis of Reporting Wholesale Prices: Under the former plan of reporting, published wholesale prices applied to open market sales only. This included goods which upon arrival were sold on the open market to buyers who were looking for goods on a strictly competitive basis, and who bought at a price,



rather than at some agreed differential in relation to a published quotation. This included sales on exchanges, if any, and sales on the street which fell in the above category. It did not include sales of lots from well known marks made at differentials over published quotations, or from lots known to possess unusually uniform quality or having other known desirable characteristics.

New Basis of Reporting Wholesale Prices: The revised method of reporting wholesale prices merely represents a broader coverage with respect to wholesale transactions. As stated on the published reports, wholesale prices now "reflect all types of wholesale trading for cash or short time credit, including open market sales, sales of special or premium marks, and sales at agreed differentials in relation to published quotations." They are not nominal prices, nor base quotations. If no prices are shown on the reports, it indicates that no sales were reported by dealers, and when price ranges vary from day to day, it is due to the fact that the published prices reflect actual trading.

Reasons for Changed Basis: The change to a new basis of reporting wholesale prices was necessary for several reasons. In the first place, the volume of open trading has been declining for a number of years, as a result in part from more direct buying in the country by jobbers and large retail distributors, and in part from changes in marketing methods by groups, cooperative and otherwise, which have either established selling agencies in terminal markets, or developed plans of marketing which by-pass wholesale channels. Similarly, some of the large centralizer creamery companies have developed direct selling to jobbing or retail trade. Still another factor which over a period of years has had a very important influence in reducing the volume of open wholesale trading has been the increased use of market quotations by shippers and receivers as the basis upon which settlements would be made. Many creameries have agreements with receivers to sell their butter at an agreed relationship to some market quotation, and frequently buying competition in the country has been so keen that creameries have received prices equal to or in excess of terminal market quotations. This has forced receivers to develop special outlets outside of wholesale channels, so that quantities of butter available for open market trading have decreased. Market quotations have been used as the basis for buying and selling all the way through from producer to retailer, despite the fact that decreasing quantities have entered directly into that type of trading which the quotations have represented. More recently, other developments have increased the problem of reporting open trading prices, principally the extreme shortage of butter, as a result of which market arrivals have been in such demand that practically all sales have become "premium" sales. The establishment of maximum prices by the OPA and the accompanying regulations with respect to distributors' mark-ups, is still another element in the picture. With open trading practically nil, the reporting of prices representing that type of trading became impossible, and change to some other basis was necessary.

Advantages of New Basis: The general price level for butter is now established on the one hand by the OPA maximum price order, and on the other by the Department of Agriculture announced support price. However, a knowledge of OPA base quotations and permitted mark-ups does not fully indicate to the shipper or the distributor what actual current price situations are in designated markets. From the shipper's standpoint, the new type of wholesale price information furnishes a means of knowing what actual selling prices are, and what changes, if any, are taking place in a market, thus placing him in a better position to understand whether adjustments in his selling arrangements are justified. From the distributor's standpoint, the information indicates the extent to which permitted mark-ups prevail from day to day.

New Prices from Creamery Standpoint: Since the changed basis of reporting will reflect dealers' selling prices for all types of wholesale trading, creameries whose butter is handled by wholesale distributors should not expect to receive premiums over them. Dealers' operating costs and profits are included in their selling prices. The OPA order does not name maximum prices which creameries shall receive, but merely names the base wholesale quotations in designated markets which are to be used in determining prices. Prices received by different creameries may vary, depending upon their individual outlets. If the creamery sold its product at differentials over a market quotation during the base period, September and October 1942, maximum selling prices to a particular class of purchaser now shall be the OPA base quotation plus the largest price differential during those months. Creameries must recognize that the relationship between the new type of wholesale prices now reported by this Department and the prices they receive for butter cannot be the same as the relationship between former quotations and prices received. Former prices covered open market sales only. Present prices cover all classes of wholesale sales.

OPA Base Wholesale Quotations: Maximum Price Regulation No. 289 issued by the Office of Price Administration established base quotations for butter as follows:

Scores		92	91	90	89	88
New York)					
Philadelphia	)	46 $\frac{3}{4}$	46 $\frac{1}{2}$	46 $\frac{1}{4}$	45 $\frac{1}{2}$	44 $\frac{3}{4}$
Boston)					
Chicago		46	45 $\frac{3}{4}$	45 $\frac{1}{2}$	44 $\frac{1}{2}$	44
Los Angeles)					
San Francisco)					
Seattle	)	48	47 $\frac{3}{4}$	47 $\frac{1}{2}$	46 $\frac{1}{2}$	46
Portland)					

The OPA order permits traders to continue the practice of quoting selling prices at differentials in relation to market quotations, but requires that the same differentials be employed as during the base period.

Trade Cooperation: Market reports published by the Department are made possible through the voluntary cooperation of various branches of the industry. These include transportation agencies, manufacturers, cold-storage warehousemen, cooperative associations, trade associations, packers, wholesalers, jobbers, and retailers. The reports are not limited to price data alone, but contain information regarding production, country marketings, market receipts, storage movements, retail sales, etc., all of which are important types of market information. Each member of the industry who uses such information has an obligation to cooperate in furnishing information which is required in order to make published reports for a given market of greatest value. Market dealers cannot operate successfully in the absence of adequate market information,--nor can shippers. On the other hand, the Department cannot make market reports available in the absence of trade cooperation.

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